

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 SCEM-02 AGR-20 INT-08

DRC-01 /188 W

----- 099048

R 111305Z DEC 73

FM AMEMBASSY BRASILIA

TO SECSTATE WAHDC 866

INFO AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

AMCONSUL RECIFE

LIMITED OFFICIAL USE BRASILIA 8388

E.O. 11652: N/A

TAGS: EGEN EFIN BR

SUBJECT: OUTLOOK FOR CONTROLLING INFLATION DIM

REF: BRASILIA 7531

1. CONTINUING DOMESTIC INFLATION REMAINS ACTIVE ISSUE  
IN PRESS AND IN CONVERSATIONS WITH GOB ECONOMIC OFFICIALS.  
DISCUSSION HAS FOCUSED ON QUESTION OF HOW FAR OFFICIAL COST  
OF LIVING INDEX WILL OVERSHOOT GOVT'S TARGET OF 12 PERCENT  
RISE FOR YEAR AND ON HOW EFFECTIVE GOVERNMENT MEASURES, LARGELY  
STOPGAP, WILL BE IN CONTAINING REAL RATE OF INFLATION THROUGH-  
OUT COUNTRY. SOARING PETROLEUM COSTS ADD TO UNCERTAINTIES  
FOR 1974.

2. OFFICIAL GUANABARA (RIO) COST OF LIVING INDEX  
FOR OCTOBER REGISTERED 11.1 PERCENT RISE FOR FIRST TEN  
MONTHS OF 1973, COMPARED TO 13.1 PERCENT FOR SAME  
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PERIOD OF 1972. MINISTRY OF FINANCE OFFICIAL INFORMED  
EMBASSY THAT GOVERNMENT NOW EXPECTS THAT INDEX WILL

SHOW A 14 PERCENT RISE FOR ENTIRE YEAR. WITHIN PAST FEW WEEKS GOB HAS ANNOUNCED DECISIONS CLEARLY INTENDED TO HOLD DOWN YEAREND COL RESULT. FINANCE MINISTRY ANNOUNCED THAT INTERMINISTERIAL PRICE COUNCIL WILL NOT CONSIDER ANY FURTHER PRICE CHANGES BEFORE END OF YEAR AND GOVT HAS ATTEMPTED TO FORCE ROLLBACK IN MEAT PRICES BY REESTABLISHING CEILING ON FARM SELLING PRICE AND RAISING EXPORT TAX ON FRESH AND FROZEN BEEF TO US\$500 PER TON.

3. COMMENT: INCREASE OF 14 PERCENT IN GUANABARA INDEX WOULD BE SAME AS REGISTERED IN 1972. THIS COULD BE INTERPRETED BY GOB AS WELL WITHIN 12 PERCENT TARGET BALLPARK IN LIGHT OF EXTRAORDINARY EXTERNAL PRESSURES ENCOUNTERED THIS YEAR- EXCESSIVE INFLOW OF FOREIGN FUNDS, HIGHER IMPORT PRICES, AND DOMESTIC SHORTAGES OF AGRICULTURAL COMMODITIES PROVIDED BY MORE PROFITABLE EXPORT SALES. IN RECENT WEEKS GUANABARA INDEX HAS COME UNDER FIRE, ESPECIALLY IN SAO PAULO PRESS, AS SUBJECT TO MANIPULATION AND AS UNREPRESENTATIVE OF REAL PRICE TRENDS THROUGHOUT COUNTRY. HOWEVER, DATA FROM OTHER CITIES GIVES MIXED PICTURE. SAO PAULO AND BELO HORIZONTE INDEXES CONTINUE TO SHOW DECLINING RATES OF INFLATION COMPARED TO 1972, WHILE PORTO ALEGRE (COL UP 19.3 PERCENT THROUGH OCTOBER) AND OTHER CITIES IN SOUTH SHOW INCREASING RATES. ON FOOD PRICES, WHICH ARE FOCAL POINT OF PUBLIC ATTENTION, ONLY GUANABARA INDEX SHOWS LOWER RISE COMPARED TO 1972, EVIDENCING PREFERENTIAL TREATMENT RIO MARKET RECEIVES IN FOOD DISTRIBUTION AND STRENGTHENING SUSPICIONS OF QUESTIONABLE PRACTICES IN PRICE SURVEY TECHNIQUES.

4. GOB EXPECTATIONS THAT PRESSURES ON FOOD PRICES WOULD ABATE NEXT YEAR AS RESULT OF BETTER DOMESTIC CROPS AND EASING OF PRICES IN INTERNATIONAL COMMODITY MARKETS REMAIN, BUT NEW PRESSURES FROM ESCALATING PETROLEUM COSTS AND FACT THAT MANY INDUSTRIAL SECTORS OF ECONOMY ARE OPERATING AT NEAR CAPACITY DIM PROSPECTS THAT GOB CAN IN NEAR FUTURE RESUME PROGRESS OF RECENT YEARS IN GRADUAL REDUCTION OF INFLATION. EFFORTS TO  
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HOLD RETAIL MEAT PRICES WILL PROBABLY NOT BE SUCCESSFUL. LARGE INCREASES IN FUEL PRICES ARE EXPECTED IN JANUARY, AND A FINANCE MINISTRY SOURCE TOLD EMBASSY THAT HIGHEST INCREASES WILL BE ON GASOLINE IN ORDER TO PASS ON BULK OF HIGHER PETROLEUM COSTS TO INDIVIDUAL CONSUMERS AND MINIMIZE IMPACT ON INDUSTRIAL USERS.  
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## Message Attributes

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